CALIFORNIA ASSOCIATION OF REALTORS®

March 27, 2018

Director Melvin L. Watt
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

RE: Credit Score Request for Input

Dear Director Watt:

On behalf of the 200,000 members of the California Association of REALTORS® (C.A.R.) I am submitting the following comments in response to the Federal Housing Finance Agency's (FHFA) December 20, 2017, *Credit Score Request for Input* (RFI). C.A.R. would like to thank the FHFA for publishing the RFI and taking this important step towards ensuring all qualified homebuyers have access to safe and affordable mortgages. C.A.R. supports Fannie Mae and Freddie Mac (Enterprises) using an updated credit score model and not the antiquated Classic FICO adopted 12 years ago. As homebuyers prepare to look for a home, REALTORS® are often their first point of contact; even before they have been approved for a loan. Because of this, REALTORS® can provide a unique perspective on the use of updated and new credit scoring models, and the impact on the consumer during the homebuying process.

Support Switch to FICO 9 and/or VantageScore 3.0

C.A.R. supports the Enterprises updating their credit score from the dated Classic FICO to FICO 9 and VantageScore 3.0. C.A.R. believes the use of the updated credit scoring models will benefit all parties that participate in the mortgage loan process including borrowers, lenders, Enterprises and end investors. A credit score that does not accurately reflect the credit risk of the borrower places the financial wellbeing of the Enterprises at risk. While in conservatorship, the Enterprises continue to be backed by the U.S. taxpayers and the FHFA as conservator should require the use of updated credit scores to protect the taxpayer. Since the housing crisis began its recovery, mortgage defaults have fallen to well below long-term trends. Buoyed by a strong economy, job growth, low interest rates and home price appreciation, real estate and mortgages have been a very safe investment. However, should the market cycle back into a downturn,

Executive Offices 525 South Virgil Ave. Los Angeles, CA 90020 Tel (213) 739-8200 Fax (213) 480-7724 www.car.org

An accurate credit score for home buyers will help to provide good decision making both in the lead up to such a downturn and during it.

One of the biggest benefits o of the newer credit scoring models was not appropriately addressed in the RFI. The RFI focused heavily on credit risk and qualification. It stated the FHFA and Enterprises did an Empirical Evaluation of the newer credit scoring models and found "only marginal benefits to requiring a different credit score than "Classic FICO." However, the FRI was silent on the impact the new credit scores would have on pricing for borrower risk.

Because the Enterprises use risk-based pricing for their fees a borrower's credit score directly impacts how much they pay for their loan. A look at both Fannie Mae's Loan Level Price Adjustment and Freddie Mac's Delivery Fee Matrixes demonstrates the impact that an accurate credit score can have on the cost of a loan. A homebuyer with a 741-credit score as opposed to a borrower with a 699-credit score (both with 20 percent down) saves 125 basis points on their fees. In California, where the median home price is $522,440 these fees can make a substantial difference in the cost of the mortgage.

C.A.R. hopes this RFI is only a first-step to broaden mortgage availability beyond traditional credit histories. C.A.R. and its members believe there remains millions of qualified homebuyers unable to obtain Enterprise mortgages because they lack traditional credit histories.

C.A.R. Supports Multiple Credit Scores

C.A.R. does not support one specific option of the four presented in the RFI. C.A.R.'s policy is to ensure that the credit score used reflects the accurate credit risk of the borrower, all qualified borrowers have access to a mortgage, and the cost of the mortgage accurately reflects the risk of the borrower.

Option 1: C.A.R. opposes the FHFA choosing only one credit scoring model over another. This will limit consumer access to mortgages and specifically provides for a monopoly in the mortgage lending arena.

Option 2: This policy may be beneficial to the consumer but could hinder competition and innovation among the credit scoring companies. By having the credit score pulled from both FICO and VantageScore, the consumer could be ensured the lender has enough information about their credit history as needed. Option 2 would also allow for the pricing of the loan to be set at the most affordable fee for the consumer. This would ensure qualified homebuyers are not just getting mortgages but are paying the appropriate fee for their risk.

However, Option 2 presents the question of qualifying and pricing the mortgage to the borrowers highest or lowest credit score. If there is a higher credit score and it is higher because it has included a variable that shows the borrower to be a safer credit risk, then the higher credit score should be used. But if there is lower credit score and it is lower because it has included a factor that shows the borrower to be a greater credit risk then the lower credit score should be used. How to address this inevitable dilemma would need to be addressed by the FHFA in any final regulation.

Lastly, this option could slow or disincentive competition and innovation among credit scoring companies.

Option 3: This option may provide for greater choice among the lenders, and promote competition and innovation among the credit score providers. However, it would require greater education of the consumer. Because the credit score is a large contributor to both the qualification and the pricing of a mortgage, borrowers would need to shop across multiple lenders for not just interest rate and closing costs, but a lender that uses FICO 9 and another lender that uses VantageScore 3.0. Educated homebuyers should be shopping for the best rate and fees, but this option would add another layer of complexity to the homebuying process.

Credit score providers would have to continually improve their product to compete with each other under this option. That would incentivize them to create the most accurate credit scoring product possible.

Option 4: While this option would ensure all credit scores are pulled for a borrower, it would pick one primary credit score which may not accurately reflect the credit risk. This could cost a homebuyer thousands of dollars over the life of the loan if the primary credit score used is inaccurate.

Consumers Must Be Educated on New Credit Scores

Any new option chosen by the FHFA will require educational outreach for the consumer. It will be important they understand the benefits of the new FICO 9 and VantageScore 3.0, as well as the differences between the two. As noted in the RFI, the fact both FICO and VantageScore use the same scale is irrelevant since a 720 FICO and a 720 VantageScore represent different credit risks. Education must be done by all parties who work with consumers, including REALTORS®, lenders, Enterprises, FICO and VantageScore. C.A.R. would look forward to working with the FHFA, Enterprises, FICO and VantageScore on ways to educate consumers and our members.

While there would be a cost involved in this educational effort, the benefit is worth the price.

RFI Proposed Questions

<u>A1.1: When and how do you use credit scores during the mortgage life cycle to support your business?</u>
Real estate agents and real estate brokers do not directly use a homebuyer's credit score. Where the credit score often first come into play is when the homebuyer gets a "pre-approval" letter from a lender. This letter has become almost mandatory for buyers to have their offers considered. The majority of REALTORS® in California will tell their homebuying clients to obtain a pre-approval letter prior to seriously shopping for a home, or at least prior to making an offer to buy.

<u>A1.5: How would updating credit score requirements impact other industry-wide initiatives that affect your organization? What is the relative priority of this initiative compared to other industry-wide initiatives?</u>
Updating the credit score will contribute to multiple C.A.R. efforts. These include ensuring qualified homebuyers who do not have traditional credit will have an opportunity to become homeowners, and ensure the financial safety and wellbeing of the Enterprises. C.A.R. views this as a first-step towards providing mortgages to qualified borrowers with little or no traditional credit history.

<u>A1.6: Do you have a recommendation on which option FHFA should adopt?</u>

See comments above under **“C.A.R. Supports Multiple Credit Scores**”

A1.7: Do you have additional concerns with or insights to share on the Enterprises updating their credit score requirements?
The Enterprises should look at how medical debt is treated by credit reporting agencies and remove any medical debt collection information from a credit report once the debt has been paid off or settled. Unlike almost all other forms of debt, medical debt is not something a person chooses to take on. Unforeseen medical expenses should be treated differently and once the debt has been settled it should no longer count in a negative manner towards the homebuyer’s credit report or credit score.

A2.1: What benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options?
See comments above under “**C.A.R. Supports Multiple Credit Scores**”

A2.2: How significant are the operational considerations for a single score update? Please discuss any comparison of operations considerations between a single score (option 1) and multiple score options (options 2-4).
With any update there will be an educational component. REALTORS® interaction with consumers under a single score update is not likely to be affected in any significant way. The update may impact who qualifies and what fees/interest rate they pay for their mortgage. As stated above, REALTORS® will often direct homebuyers to get pre-approved before making an offer. Homebuyers may acquire this pre-approval letter prior to looking for the home, or can obtain one within hours of contacting a lender once they have found a home they want to make an offer on. It is also not uncommon for a homebuyer to obtain a pre-approval letter to submit an offer and then shop for the lowest rate among multiple lenders while their offer is being considered or immediately after acceptance.

Under a multiple score option (options 2-4) there are likely to be some differences, but perhaps not that much on the operational side. As stated above, buyers can still shop for a lower rate after getting a pre-approval letter, and with a multiple score option this practice may increase.

The biggest differences are likely to be more questions from buyers and the reason it is even more important for borrowers to shop for the lowest interest rate and fees.

A2.7: What impact would any of the credit score options have on a need for consumer education? What impact would the multiple credit score options (options 2-4) have on consumers? Are there steps that FHFA, the Enterprises, or stakeholders could take that would mitigate any confusion about multiple credit score options?
All options will require a consumer education component, though a multiple credit score option will entail more. The positive, is that the FHFA and Enterprises have built a foundation to provide this education through its continued relationship with industry participants such as REALTORS®, lenders, mortgage brokers, credit rating agencies, credit reporting agencies, community groups, and others. Each of these groups should be viewed as a partner for consumer outreach and education.

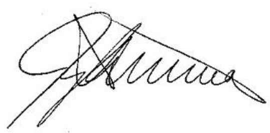
B7: If the Enterprises had to increase pricing for using less credit data from fewer than three credit agencies to

account for the additional risk, would the flexibility still be attractive?
C.A.R. strongly opposes the option of pulling less credit data. The additional cost to the homebuyer can add up to hundreds or even thousands of dollars over the life of a 30-year loan. The cost of pulling three credit reports is nominal compared to this additional cost to the consumer. There may be a place for additional costs to homebuyers with thin or no credit history, but the goal of the credit report should be to provide the borrower with the lowest appropriate fee possible for their mortgage.

The FHFA should not pursue policy that looks to increase fees when there is no reason to do so.

Thank you for taking into consideration C.A.R.'s comments on this important issue. We would be happy to discuss any of these issues further with you and your staff, please contact Matt Roberts, C.A.R. Federal Governmental Affairs Manager at matthewr@car.org or by phone at (213) 739-8284.

Sincerely,



Steve White
2018 President, California Association of REALTORS®